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FPM-CASEY; BJT:780

\*SECOND FEDERAL COURT RULES AGAINST CASEY IN MULTIPONICS CASE

\*BY MICHAEL J. SNIFFEN

\*ASSOCIATED PRESS WRITER

WASHINGTON (AP) - ANOTHER FEDERAL COURT RULING CRITICAL OF CIA DIRECTOR WILLIAM J. CASEY'S FINANCIAL DEALINGS SAYS HE AND OTHER DIRECTORS DROVE A NOW-DEFUNCT FARMING CORPORATION "DEEP AND DEEPER INTO DEBT" BY MANAGING IN A "PATTERN OF SELF-INTEREST."

PRESIDENT REAGAN; VICE PRESIDENT GEORGE BUSH AND WHITE HOUSE COUNSELOR EDWIN MEESE III HAD BARELY FINISHED ON WEDNESDAY AFFIRMING THEIR SUPPORT FOR CASEY AND DISCOUNTING A FEDERAL COURT RULING AGAINST HIM IN NEW YORK ON MAY 19; WHEN A YEAR-OLD FEDERAL APPELLATE COURT RULING IN NEW ORLEANS SURFACED.

DEPUTY WHITE HOUSE PRESS SECRETARY LARRY SPEAKES ACKNOWLEDGED THAT REAGAN HAD FIRST LEARNED OF THE NEW YORK RULING BY READING PRESS REPORTS TUESDAY. IT WAS UNCLEAR WHETHER TOP ADMINISTRATION OFFICIALS WERE AWARE OF THE NEW ORLEANS DECISION WHEN THEY TOOK THE LINE THAT CASEY'S BUSINESS DEALINGS DID NOT AFFECT HIS CIA JOB.

REAGAN HAD TOLD REPORTERS: "THERE IS NO CONTROVERSY (OVER CASEY). I HAVE COMPLETE TRUST IN HIM." BUSH; ASKED IF CASEY SHOULD RESIGN; REPLIED: "OH, NO!" AND CASEY'S ATTORNEY SAID THE CIA CHIEF "DENIES ANY MISCONDUCT."

BOTH RULINGS INVOLVED CASEY'S ROLE IN MULTIPONICS INC., A FAILED NEW ORLEANS FARMING VENTURE.

IN THE NEW YORK CASE; A JUDGE RULED THAT CASEY AND OTHER DIRECTORS HAD KNOWINGLY MISLED POTENTIAL INVESTORS IN MULTIPONICS IN 1968.

IN THE NEW ORLEANS CASE; CASEY AND THE OTHER DIRECTORS LOST A BID TO CLAIM PART OF THE FAILED FIRM'S ASSETS. THAT RULING WAS SOUGHT BY A COURT-APPOINTED LAWYER FOR THE FIRM'S TRUSTEE AS A PENALTY FOR THE DIRECTORS AND WAS UPHOLD JULY 16, 1980; BY A UNANIMOUS THREE-JUDGE PANEL OF THE 5TH U.S. CIRCUIT COURT OF APPEALS IN NEW ORLEANS.

AS A RESULT; MULTIPONICS' REMAINING \$10 MILLION IN ASSETS WERE DIVIDED TWO WEEKS AGO AMONG THE FIRM'S CREDITORS; LEAVING NO MONEY TO REPAY THE DIRECTORS FOR PERSONAL LOANS MADE TO THE FIRM; ACCORDING TO THE TRUSTEE'S LAWYER; PETER J. BUTLER OF NEW ORLEANS.

CASEY'S ATTORNEY IN NEW YORK; MILTON GOLD; SAID THE CIA DIRECTOR; A SELF-MADE MILLIONAIRE; LOST \$150,000 IN THE VENTURE. AND GOLD NOTED THAT DAMAGE CLAIMS AGAINST CASEY AND OTHER DIRECTORS HAD BEEN

# ASSOCIATED PRESS

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CASEY'S LEGAL TROUBLES OVER MULTIPONICS SURFACED AFTER HIS PROTEGE RAY HUGEL, A MILLIONAIRE BUSINESSMAN BROUGHT BY CASEY TO THE CIA FROM THE REAGAN PRESIDENTIAL CAMPAIGN, RESIGNED ABRUPTLY TUESDAY MORNING AS HEAD OF THE AGENCY'S CLANDESTINE SERVICES.

HUGEL'S RESIGNATION CAME HOURS AFTER THE WASHINGTON POST PRINTED ALLEGATIONS BY TWO NEW YORK STOCKBROKERS THAT THEY HAD PARTICIPATED IN 1974 WITH HUGEL IN PROHIBITED MANUEVERS TO BOOST THE STOCK OF A FIRM HUGEL ONCE OWNED. HUGEL DENIED ANY WRONGDOING.

IN A TELEPHONE CALL TO THE POST WEDNESDAY, CASEY SAID HE HAD KNOWN HUGEL "FOR ONLY 17 MONTHS, NOT 20 YEARS," AS HUGEL HAD CLAIMED. MULTIPONICS FILED FOR REORGANIZATION UNDER THE BANKRUPTCY ACT THREE YEARS AFTER ITS FOUNDING. IN JANUARY 1973, BUTLER FILED A MOTION ARGUING THAT ALL OTHER CREDITORS SHOULD TAKE PRIORITY OVER CASEY AND THE OTHER DIRECTORS WHO WERE SEEKING REPAYMENT OF PERSONAL LOANS TO THE FIRM, BECAUSE THEIR MANAGEMENT HAD CONTRIBUTED TO THE FIRM'S DIFFICULTIES.

BUTLER ALSO FILED A CIVIL SUIT AGAINST CASEY AND THE OTHER DIRECTORS SEEKING \$2.1 MILLION IN DAMAGES AND, AGAIN, SUBORDINATION OF THEIR CLAIMS.

THE SUIT AND MOTION WERE COMBINED. IN DECEMBER 1976, A SPECIAL MASTER REPORTED TO THE COURT THAT THE DAMAGES WERE NOT WARRANTED BUT THAT SUBORDINATION OF THE CLAIMS WAS. U.S. DISTRICT JUDGE ALVIN RUBIN ACCEPTED THE MASTER'S FINDINGS IN JANUARY 1977.

ONE OF CASEY'S CO-DEFENDANTS, CARL BIEHL, APPEALED RUBIN'S RULING TO THE 5TH CIRCUIT.

IN AN OPINION BY JUDGE JOHN R. BROWN, THE APPELLATE COURT SAID: "THE MASTER DID FIND, AND THE RECORD SUPPORTS HIS FINDINGS, THAT THE FOUNDING OFFICERS AND DIRECTORS ENGAGED IN AN 'OVERALL PATTERN OF SELF-INTEREST'."

IN A SWORN FINANCIAL STATEMENT SUBMITTED TO THE SENATE INTELLIGENCE COMMITTEE LAST JANUARY, CASEY WAS ASKED TO LIST ANY SUITS IN WHICH HE HAD BEEN PLAINTIFF OR DEFENDANT IN THE LAST FIVE YEARS. HE LISTED THE NEW YORK CASE BUT NOT THE ONE IN NEW ORLEANS.

BUTLER SAID CASEY WAS A DEFENDANT IN HIS SEPARATE SUIT AS LATE AS JANUARY 1977, BUT GOLD MAINTAINED THAT CASEY DID NOT HAVE TO LIST THAT BECAUSE HE WAS NOT A NAMED DEFENDANT IN THE REORGANIZATION CASE WHICH HAD BEEN COMBINED WITH THE SUIT.

WHILE REAGAN WAS BACKING CASEY, CBS SAID SEN. BARRY GOLDWATER, R-Ariz., WAS TELLING COLLEAGUES ON THE SENATE INTELLIGENCE COMMITTEE THAT CASEY SHOULD BE REPLACED. BUT GOLDWATER'S SPOKESWOMAN, KATHERINE BRAMMER, SAID WEDNESDAY NIGHT THAT THE SENATOR CALLED THE CBS STORY "A MALICIOUS LIE" AND TOLD HER THAT HE HAD NEVER TOLD ANY COLLEAGUES ANYTHING. ... I THINK CASEY'S ALL RIGHT."

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Page 2 of 2

# RADIO TV REPORTS, INC.

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4701 WILLARD AVENUE, CHEVY CHASE, MARYLAND 20015 656-4068

STAT

FOR PUBLIC AFFAIRS STAFF

PROGRAM News and Commentary

STATION WTOP Radio  
CBS Network

DATE July 16, 1981

5:40 PM

CITY Washington, DC

SUBJECT The Hugel Resignation

DOUGLAS EDWARDS: William J. Casey, Director of the Central Intelligence Agency, is quoted as saying that the United States needs the world's best intelligence. This week there were indications that Casey had not been served by the best intelligence, even within his own department, and maybe within his own affairs. As a result, his job may be on the line.

More on the Casey story in a moment.

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EDWARDS: It started with accusations against Max Hugel, the 56-year-old Brooklyn native who headed up the largest directorate in the CIA, the branch responsible for covert action and clandestine operations overseas. According to the accusations, Hugel was guilty of unethical, perhaps illegal, stock market practices in the 1970s when he managed a manufacturing business. Hugel denied the accusations after they first appeared in the Washington Post this week, calling them unfounded, unproven, and untrue. Nevertheless, on Tuesday he resigned his super-sensitive job with the CIA. His boss, William Casey, accepted the resignation with deepest regret.

It was Casey who had appointed him in the first place, an unusual and controversial appointment. Hugel did not fit the mold of his predecessors. He wasn't Ivy League, wasn't from within the CIA, wasn't the so-called solid professional. But Casey stood behind him, praised him as a man of drive, clarity of mind, and executive ability. Until, that is, the accusations. Then, with prodding from the White House, Casey wasted little time in agreeing to Hugel's resignation.

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Meanwhile, Casey faced some problems of his own. They involved two federal court rulings, one in July 1980 and the other one this past May, rulings have to do with his role in a now defunct farming corporation. In both cases, the courts were critical of his financial dealings.

Today the White House said Casey had disclosed the earlier ruling when he was being considered as CIA Director. But apparently the White House learned of the May ruling only from news reports this week. In any event, President Reagan suggested it didn't matter. He told reporters he has complete trust in Casey.

CBS News has found out, however, that members of the Senate Intelligence Committee are unhappy about Casey, would like to replace him with his immediate subordinate, Admiral Robert "Bobby" Inman.

This is not to count out 68-year-old William J. Casey, though. If there's a single word that usually describes him, it's tough. Besides, he's well experienced in the way Washington operates, which probably is as important to his job as knowing how covert intelligence operates. He served during World War II in the Office of Strategic Services, the forerunner of the CIA, was Undersecretary of State for Economic Affairs, Chairman of the U.S. Export-Import Bank, on the Advisory Council of the Arms Control and Disarmament Agency, Chairman of the Securities and Exchange Commission, and Mr. Reagan's campaign chairman.

If Casey's on the ropes, he has the good fortune to know how to use them, as well.

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ON PAGE 1

CHRISTIAN SCIENCE MONITOR  
16 July 1981

## Hugel affair settled quickly, but President mum on Casey ruling

By Godfrey Sperling Jr.  
Staff correspondent of  
The Christian Science Monitor

Washington

A possible major embarrassment for President Reagan has begun to recede almost as quickly as it came to public attention.

Max Hugel, Central Intelligence Agency chief of operations in charge of covert activity, resigned shortly after the Washington Post reported that two of his former business associates accused him of improprieties intended to increase the price of stock in a firm he headed.

Now, Mr. Hugel's boss, director of Central Intelligence William J. Casey, also is being subjected to questions about past ethical conduct. A federal district court judge in Manhattan has ruled that he participated with several others in an investment offering that "omitted and misrepresented facts" to investors.

Mr. Casey is not commenting on the



CIA Director William J. Casey

case, but one of his lawyers says that Casey was a passive investor and did not violate the federal security law. The White House declined comment on Casey's case, noting the matter was under appeal.

A White House spokesman on July 15 said the President was sticking with Casey. But he also said the President had not yet seen the full transcript on the ruling involving Casey.

The quick way in which the President dealt with the Hugel problem is being contrasted here with the way President Carter clung onto his own first, big embarrassment: the allegations made against Bert Lance.

Observers here point out that the Lance incident surfaced at a similar, early moment in the Carter administration and that by insisting on keeping Mr. Lance in his OMB post, Mr. Carter dealt himself a major political blow.

At that time there were those among

Carter's top advisers who thought that even the unproven charges of past, bank-related improprieties against Lance should be enough for the President to let his old friend resign.

They counseled him that the public expected him to be particularly scrupulous in maintaining a high ethical standard in his White House and that this would include getting rid of a top aide who was under a cloud of allegations, even if unproven.

But Carter told Lance he was "proud" of him. And by the time Lance did leave his position, he had — as many observers see it — done much to mar the Carter presidency.

Says one political analyst, "From that moment on, when Carter didn't get rid of Lance, it can be said that the Carter administration began to slide downhill."

But now Hugel, declaring his innocence but asserting that he did not want to put a burden on the President, has left the scene quickly. And he was immediately replaced by John Henry Stein, a career CIA officer.

So the possible political damage to the President has been quickly controlled. Observers believe the incident soon will be forgotten, unless it is followed by further incidents, particularly if they involve high-level appointments where Mr. Reagan has actively participated in the choosing.

At this point the main blame for the Hugel incident is being put on the shoulders of CIA director Casey.

"I'd say it is more Casey's embarrassment than Reagan's," HUD Secretary Samuel R. Pierce Jr., told reporters over breakfast July 15.

"It was Casey's influence which got Hugel appointed. Casey knew him and worked for his appointment and even wrote a letter to the President in his behalf," he said.

The big question in the Hugel incident is how the allegations were not noticed in the check run on him by the CIA prior to his appointment.

Meanwhile, the President says he is "saddened" by the Hugel-related events. At the same time, he expresses continued full confidence in Casey. Thus, unless there are some unforeseen chapters that have yet to unfold, the Hugel case, sensational for several hours, seems likely to continue to fade.

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ON PAGE A-18 WASHINGTON STAR  
16 July 1981

OLIPHANT

RECEIVED STANLEY  
RE WASHINGTON STAR

OLIPHANT

SCAT!

HUGEL QUIT!

CASEY

SOMEONE'S  
BEHIND YOU  
A THOUSAND  
PERCENT

THE BALTIMORE SUN  
16 July 1981

# The Spy Who Came in . . . .

Max Hugel is the spy who never should have come into CIA headquarters from the cold, cold world of business wheeling and dealing. The Central Intelligence Agency is unquestionably better off now that he has resigned as deputy director for operations. An amateur like him never should have been put in that job in the first place. The fact that CIA Director William J. Casey named Mr. Hugel to that position raises questions about his own judgment.

The deputy director for operations is the "spymaster" of the CIA. He oversees clandestine operations overseas. It is the most sensitive, most professional job in the CIA. It has traditionally gone to careerists. Mr. Hugel's qualifications for the spot were nonexistent. Even if he had not had the questionable career in business that he is now revealed to have had, he would not have been the man for spymaster.

An important issue involved here—the most important, we believe—is why details of Mr. Hugel's career came to the attention of Mr. Casey, the CIA and President Reagan only after he was in the agency for six months and in the spymaster's job for two months. A

general review of CIA policies and procedures designed to prevent embarrassment and worse ought to begin on Capitol Hill at once.

In that regard, the Senate Intelligence Committee needs to ask itself why Mr. Casey was not required to go into details about his own business career before he was confirmed as CIA director. A federal judge has recently concluded that Mr. Casey was involved in a scheme to mislead investors. Allegations to that effect were known but not pursued at the time the committee held confirmation hearings on Mr. Casey.

The CIA is not just another government agency. It performs a vital function in the shadows. Its responsibility is so great and its operations so secret that there are enormous temptations for its operatives to transgress the limits of law and propriety. As exposes of recent years showed, at times in the past the agency went beyond the limits. To keep the CIA in check while it does its job, and to maintain the respect of the public, the agency needs in its leadership and management positions professionals of the greatest integrity as well as the greatest competence.

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ON PAGE 8

BOSTON GLOBE  
16 JULY 1981

## Resignation at the CIA

The resignation of Max Hugel as chief of clandestine activities for the CIA following allegations of improper business dealings seven years ago is a black mark on the record of the Reagan Administration, although one that will not smudge other Administration activities.

There has been no suggestion that the allegations against Hugel relate in any way to the performance of his official duties.

Hugel's resignation will do nothing to strengthen the hand of CIA Director William Casey within the Administration, and it is a setback for the CIA, still battling to overcome the impact on its reputation of questionable activities in the 1960s and early 1970s.

Ironically, however, Hugel's resignation probably will benefit the Reagan Administra-

tion and the CIA is one respect. A New Hampshire businessman, Hugel was a rank amateur in the intelligence business and owed his appointment exclusively to the confidence which Casey had in him. Intelligence veterans were appalled from the beginning that a man without professional qualifications and experience could have been appointed to such a sensitive post.

Hugel's replacement by a career CIA employee, John H. Stein, will assuredly quell the criticism from intelligence veterans. It may be that President Reagan is now living such a charmed political existence that even a potential scandal involving an official of his Administration serves, at least in limited way, to strengthen the President's position.



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LOS ANGELES TIMES

ON PAGE 6 (PART II)

16 July 1981

# The Cloak and the Cloud

William J. Casey, President Reagan's director of the Central Intelligence Agency, came into office determined to restore the CIA's effectiveness and morale, both of which were eroded by Watergate-era disclosures of questionable activity by the agency. In a memo to employees two weeks ago, he wrote that "the difficulties of the past decade are behind us." Thanks in part to his own less-than-perfect betting average in choosing subordinates, it appears that Casey was overly optimistic.

Max C. Hugel, hand-picked by Casey to run the CIA's cloak-and-dagger operations, resigned this week in the wake of allegations that he engaged in improper stock market activities seven years ago. Questions are being raised about Casey's own role in a stock offering in 1968.

The President is expressing full confidence in the CIA chief's honesty and integrity. Depending on what happens in the court case involving the stock offering in question, the cloud hanging over Casey's head may disappear. But as of now the cloud is there.

The CIA chief, who served as Reagan's campaign manager, is a prominent lawyer whose previous experience in intelligence work was of World War II vintage. But he has made several good appointments to his staff.

Adm. Bobby R. Inman, the No. 2 man at the agency, came to the CIA from the top job at the supersecret National Security Agency, where he had an excellent reputation.

Henry S. Rowen, former president of the Rand Corp. who has been brought in by Casey to upgrade the system under which national intelligence estimates are produced, has had long experience in areas closely related to intelligence.

Stanley Sporkin, the respected former chief of enforcement at the Securities and Exchange Commission, is the CIA's general counsel.

One appointment, however, made no sense from the beginning. And that was Casey's selection of Hugel, a highly visible and controversial campaign aide with seemingly no background in intelligence, to be deputy director for operations.

That sensitive post has traditionally been held by experienced career officers. Three—Allen Dulles, William Colby and Richard Helms—went on to become CIA directors.

Hugel says firmly that the allegations against him are "unfounded, unproven and untrue." Even if his denial is taken at face value, the overriding fact is that he had no visible qualifications for the CIA post, and never should have been named in the first place.

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WALL STREET JOURNAL  
16 July 1981

# What's News—

## World-Wide

**SOVIETS GOT SECRETS** from a former Army warrant officer, the U.S. charged.

The FBI arrested Joseph Helmich, 44, in Florida; he is accused of selling coding manuals and equipment to the U.S.S.R. for \$131,000. Most of the charges date back to the early 1960s, but Helmich allegedly got payoffs as late as August 1980. U.S. Attorney Gary Betz said Helmich had been made a Soviet colonel.

Damage from the disclosures "could be very, very grave," Betz said. Soviets could have decoded messages in the Vietnam conflict, he indicated.

Reagan expressed "complete trust" in CIA Director William Casey, after a federal judge's ruling against him. The judge said Casey knew of misstatements in a 1968 stock offering by a farming company when he served on its board. Casey's lawyer said, however, "we have very substantial defenses."

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16 July 1981

# CIA's Casey stung anew

By Michael E. Sniffen

Associated Press

WASHINGTON—Another federal court ruling critical of CIA Director William J. Casey's financial dealings says he and other directors drove a now-defunct farming corporation "deep and deeper into debt" by managing in a "pattern of self-interest."

President Reagan, Vice President George Bush and White House counselor Edwin Meese III had barely finished Wednesday affirming their support for Casey and discounting a federal court ruling against him in New York May 19, when a year-old federal appellate court ruling in New Orleans surfaced.

Deputy White House press secretary Larry Speakes acknowledged that Reagan had first learned of the New York ruling by reading press reports Tuesday. It was unclear whether top administration officials were aware of the New Orleans decision when they took the line that Casey's business dealings did not affect his CIA job.

However, Speakes said today that Casey had filed the New Orleans ruling on disclosure forms submitted to the White House before his nomination as CIA director.

Reagan had told reporters

"There is no controversy [over Casey]. I have complete trust in him." Bush, asked if Casey should resign, replied, "Oh, no!" and Casey's attorney said the CIA chief "denies any misconduct."

The president called Casey on Wednesday "to reassure him he had full confidence" in the director. Speakes told reporters today.

Both rulings involved Casey's role in Multiponics Inc., a failed New Orleans farming venture.

In the New York case, a judge ruled that Casey and other directors had knowingly misled potential investors in Multiponics in 1968.

In the New Orleans case, Casey and the other directors lost a bid to claim part of the failed firm's assets. That ruling was sought by a court-appointed lawyer for the firm's trustee as a penalty for the directors and was upheld July 16, 1980, by a unanimous three-judge panel of the 5th U.S. Circuit Court of Appeals in New Orleans.

As a result, Multiponics' remaining \$10 million in assets were divided two weeks ago among the firm's creditors, leaving no money to repay the directors for personal loans made to the firm, according to the trustee's lawyer, Peter J. Butler of New Orleans.

MILWAUKEE JOURNAL  
16 July 1981

## THE WHITE HOUSE

## Office of the Press Secretary

## PRESS BRIEFING

BY

LARRY SPEAKES

The Briefing Room

July 16, 1981

INDEXSUBJECTPAGE

## ANNOUNCEMENTS

Presidential personnel.....	1
President's Schedule.....	1-2
Briefings.....	2-3
Baker Speech.....	4
Visit by Jody Powell.....	4

## IMMIGRATION

Ft. Chaffee Decision.....	3,12
Guest Worker Program.....	12

## F-16s

Decision.....	3-5
---------------	-----

## JUDGE O'CONNOR

Meeting with Senator Helms.....	5
---------------------------------	---

## AWACS

Discussions with Congress.....	5
--------------------------------	---

## CASEY

White House contact.....	6
New court case.....	6-7
May 19th decision.....	7
Disclosure statements.....	7,10
Phone call to the President.....	7-8
Senator Goldwater.....	8
Executive privilege.....	8-9
President's Views.....	10

## FRUIT FLIES

Governor Brown's request for disaster assistance.....	8
---	---

## VOLCKER MEETING

Substance of .....	9
--------------------	---

## WATT

Decisions by.....	10-11
-------------------	-------

## MX

Launchmode recommendations.....	11
---------------------------------	----

THE WHITE HOUSE

Office of the Press Secretary

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PRESS BRIEFING

BY

LARRY SPEAKES

The Briefing Room

July 16, 1981

12:06 P.M. EDT

MR. SPEAKES: The President is announcing the appointment of Rita Ricardo-Campbell to be a member of the President's Economic Advisory Board. And after the press conference today he will go into the Oval Office --

Q Are you prepared to begin your briefing?

MR. SPEAKES: No, I was trying to set up that interview with Hunt, that exclusive that we've been working on here. But, nevertheless, Reynold's will get it.

Q He wouldn't know what to ask.

MR. SPEAKES: Terry Hunt is being appointed to the Supreme Court. (Laughter.)

Q On your mark, get set, go.

MR. SPEAKES: Rita Ricardo-Campbell is going to be a member of the President's Economic Advisory Board, by virtue of appointment by the President.

Q Pardon me.

MR. SPEAKES: The President's schedule is the lunch that you missed, the 1:30 Cabinet meeting with the subject immigration; the 3 o'clock meeting with the Governors Millican, Quie and Ray.

Q Are you going to open that for photos?

MR. SPEAKES: No, no plan to now.

Q What's it about?

MR. SPEAKES: About immigration. Really refugees, not the specific immigration problems that are before the --

Q Will they come to the briefing room?

MR. SPEAKES: I don't think so. I think they're going outside. Then at 4:30, Paul Volcker, the Chairman of the Board of Directors of the Federal Reserve Board. There will be photo coverage of that.

Q Will he come in the briefing room?

MR. SPEAKES: It is at his option. I doubt it. That's one in a series of meetings with the Chairman of the Board.

The President, for background, we should hold it off

MORE

#131-7/16/81

Q Was there one of these new national security advisory committee meetings at the White House -- one of those twice weekly --

MR. SPEAKES: No, not today. There was one day before yesterday.

Q Yes, but not today?

Q . Was William Casey here today at any point?  
Has he been?

MR. SPEAKES: Not that I'm aware of.

Q Is he expected?

MR. SPEAKES: Not that I'm aware of.

Q Has the President talked to him today?

MR. SPEAKES: Again, not that I'm aware of. I haven't asked all these questions, but I have not heard it.

Q Has Casey talked to any of the big three today?

MR. SPEAKES: I don't believe so.

Q Well, what about this new court case that has come to light? What is your line on that?

MR. SPEAKES: The line on that is that it's a court case that dates back to 1968 and '69. It's a civil action. It involved the breakup of a business. There were several lawsuits resulting from it and this is one that has --

MORE #131-7/16

Q Fraud seems to be involved as far as a determination is concerned.

MR. SPEAKES: I did not note that in the reading I did on the decision.

Q Do you have a copy of that decision?

MR. SPEAKES: I do not have a copy of that decision.

Q Did you ever get a copy of the May 19th decision from New York?

MR. SPEAKES: Yes, I think Mr. Fielding has a copy of that.

Q Well, is there any plan to study it and to make a determination here at the White House as to what the decision says and the implications of it?

MR. SPEAKES: Mr. Fielding certainly will and has studied it and he will make any determination that is needed to be out of it, but I know of no change in the President's stated position that he stated yesterday afternoon about Director Casey.

Q Larry, is that lawsuit also included in Casey's disclosure statement which he provided to the FBI?

MR. SPEAKES: Yes. Both of these lawsuits, and I think that there are others in the New Orleans appeals that were disclosed and Fielding did discuss it with him in detail.

Q You are absolutely certain that those were in his disclosure statements?

MR. SPEAKES: I know that they were -- and of course what we are talking about, too, is the personal disclosure statement and not the financial disclosure statement that is on public record.

Q That is not available to us.

MR. SPEAKES: No.

Q The White House is not making it available?

MR. SPEAKES: No.

Q Have you been able to establish whether Fielding mentioned those cases to the President in discussing Casey?

MR. SPEAKES: I think that Fielding, in his discussions with Casey, made a determination that these pending cases were not of sufficient nature to raise to the President. This information was presented to the Senate committee and apparently they made a decision that it was not sufficient to raise in the hearings, and that is where the matter stands.

Q There is a report that in the phone call yesterday between the President and Casey, Casey did explain to the President what had happened or at least give the President a view from his perspective of what had happened. Is that correct?



MR. SPEAKES: I am not privy to the substance of the phone call or was not present. I know the purpose of the phone call, which was for the President to say exactly what I said to you yesterday, that he has full confidence in the Director, but what the exchange was, I do not know.

Q Is Senator Goldwater supposed to see the President or talk to him today?

MR. SPEAKES: I don't think so. I notice Senator Goldwater retracted the CBS report on his position on Director Casey.

Q Of course, we stand by it. (Laughter.)

Q You say that the case from New Orleans was on the forms that went to the Senate?

MR. SPEAKES: Yes.

Q That personal disclosure form did go to the Committee, right?

MR. SPEAKES: I am not sure that it actually went, but I will have to check that.

Q What forms was this listed on?

MR. SPEAKES: They were listed on the personal disclosure form, and also I don't want to state what is in the FBI background check, but it would have definitely been a subject of the FBI background check, which was provided to the Senate.

Q Some senators are talking about beginning an investigation of this whole series of matters concerning the CIA, Casey and Hugel. Would the White House object to that? Would the White House cooperate in such an investigation?

MR. SPEAKES: It has not come up here in those terms, Sam. Certainly the Senate has a right and privilege to do whatever they would like, but it just has not arisen here in any terms as to whether we would get involved or cooperate or however you want to put it.

Q What is this President's general position on the so-called "executive privilege" that some other presidents have claimed?

MR. SPEAKES: We address that on a case-by-case basis as it comes up.

Q So you have no position?

MR. SPEAKES: I guess you could say that. We have no general position but we certainly have it on a case-by-case basis.

Q You claim the power if you want it, then?

MR. SPEAKES: That is right.

Q What is the status of Governor Brown's request that California be declared a disaster area?

MR. SPEAKES: It has not been received here yet. We have heard from the West Coast that it is en route, but it has not arrived yet unless it could be at FEMA and not here. But we do not have it and we would have to wait until we get it to look into it.

Q Larry, has this President had to declare executive privilege in the past? I mean, has there been an instance where he has had to --

MR. SPEAKES: Not specifically. There have been two or three Cabinet officers that have been asked to provide certain documents and I am not sure how those were resolved, whether it was a claim of executive privilege or whether the House and the Senate changed their mind. I do not know the outcome of that.

Q Larry, does the President have any special message that he wants to convey to Volcker today, to keep the money reins tight or anything?

MR. SPEAKES: There is a restriction on how we deal with the Federal Reserve Board and we certainly abide by that custom and those restrictions. I think that our policy is well-known to everybody concerned. This is a past practice of many administrations back, for a continuing consultation with the Fed in exchange of views and that is what the purpose of the meeting is today.

MORE

#131-1/16

Q Larry, back on the Casey business. This personal disclosure that you mentioned a couple of times, is this something that all Cabinet level and sub-Cabinet level --

MR. SPEAKES: Yes. That's right. Presidential appointees.

Q It wasn't peculiar to a CIA appointment?

MR. SPEAKES: No, it's everybody. And it does contain, as I mentioned yesterday, that statement about pending litigation.

Q The President is quoted again in a news story today when this matter came up about Casey saying something to the effect of, "Well, why are they bringing that up? That's old news." And yet we've been told that the President didn't learn about it until two days ago so it wasn't old news to him -- that is, the May 19th court decision. I'm not quite clear of what the President was talking about. Can you help me?

MR. SPEAKES: I don't know whether I specifically recall him saying that or not. I think he was indicating that this had been a subject of civil litigation over a number of years, dating back to the mid-60's or late-60's. Director Casey had been before the Senate four times for confirmation. The Senate had confirmed him as a Presidential appointee all four times. He'd been the subject of FBI background checks each time and I think that's what he was referring to.

Q Well, does the President feel that Casey should have told him or someone at the White House about the court decision in May when it occurred?

MR. SPEAKES: Sam, I haven't heard an expression on that specific topic. I just haven't asked anybody how they felt about it.

Q Casey didn't tell anybody about it, did he?

MR. SPEAKES: I don't think so. I need to go back and check that one. I know you asked that yesterday.

Q Well, I'm not sure of why the President takes such a sanguine view of this court decision. It doesn't matter to him, apparently. It hasn't shaken his trust in Mr. Casey at all and it's not going to in the future. Why not?

MR. SPEAKES: You heard what he said.

Q But he didn't explain himself. He just declared himself.

MR. SPEAKES: Right. That's what I'd like to do -- declare myself.

Q Has the White House made any attempt to reign in Secretary Watt or -- you took this question, I think, earlier this morning. What can you say about Watt and whether or not he is free to make major decisions without the White House program.

MR. SPEAKES: He's certainly a Cabinet officer and he certainly executes the policy of the President and the policy he is executing is that of the President. He is doing what the President would wish that he do.

As far as any disclosure, mainly we do like to coordinate what our Cabinet officers are doing and particularly

- 11 -

announcements of policy.

Q Has he been cautioned on this in the last couple of days, to check all major decisions with the Big Three?

MR. SPEAKES: He said yesterday he had not. I don't know whether anybody has specifically spoken to him, but that's sort of standing orders within the administration to keep the White House posted on what you're going to do as far as policy announcements. And that's the word that's gone out. I don't know whether anybody's called him and said, "Look here."

Q What does the President think of the idea of putting 100 MX missiles in big transport planes and flying them around as a method of the launch mode of the MX -- the basing mode, rather.

MR. SPEAKES: These decisions have not come to the President. These recommendations have not come to the President.

Q You keep slipping. Every time you talk about this subject, you talk about the decisions and then you catch yourself.

MR. SPEAKES: Well, either/or, recommendations. There has been no recommendation from Weinberger on the MX. We have not seen a report. We have not heard about a report. These are still matters that are under consideration at the Department of Defense and the Townes Report has not come to the Department of Defense yet, so all that is fairly well down the track.

Q How far down the track?

Q When do you expect that?

MR. SPEAKES: Lou, I really don't have a timetable for MX decision. Weinberger is still waiting on the Townes Report. Once that comes to him, then I'm sure there will be discussions within the Department of Defense and then that matter will then come to the President in a recommendation form for decision by the President.

MORE

#131-7/16

- 12 -

Q Larry, he has met with the Townes Committee. There isn't any question about that. He knows what the recommendations are, whether he's got the formal report. That's been acknowledged. I'm just wondering if you feel that there will be anything before the President's made the decision on it before the recess?

MR. SPEAKES: Lou, on a guidance basis, I don't anticipate it. But I always hesitate to set timetables. I'm just giving you what my judgment is from knowing how far it is down the line.

Q Is the hang-up on the immigration policy the amnesty for Mexicans?

MR. SPEAKES: No, there's really no hang-up on it except for the tremendous complexity of it and the detail that is involved in the Attorney General's task force. It has just, frankly, taken this long for the matter to be discussed at Cabinet meetings, and they had, I think, 15 points to discuss last week and they got to eight or nine, somewhere along in there. So that's where we pick up this afternoon. So there's really no hang-up except the time consumed with going through these in great detail.

Q You mean there have been decisions on the eight or nine? In other words, are you saying that it's simply a matter of their having to systematically go through each point or are there actually controversies that are still being --

MR. SPEAKES: There is discussion on each one, yes, and the recommendations are being presented to the President for his decision.

Q There's a story that the hang-up is over this guest-worker program that -- Block and Anderson sort of versus Donovan on that point and that's what is stalling it. Can you make any comment on that?

MR. SPEAKES: No, except to say that I don't believe it to be true.

The task force has been meeting over a period of months and it's brought forth its recommendations. In some cases, there are options which do indicate that certain Cabinet members do have different views and the President in some points will get clear-cut unanimous recommendations and then on other points will get options presented to him that represent the various views of Cabinet members that were on the task force.

Q Do you know, for instance, if the guest-worker program is proving to be more controversial than the interdiction of the Haitian boats or any other aspect of the task force?

MR. SPEAKES: I don't know. Not having been involved in the task force and only in the Cabinet meetings.

Q Speaker O'Neill does not seem to believe that he gave the kind of commitment to the President about both the tax and the budget bills that you described here yesterday. Why do you think that is?

MR. SPEAKES: You predicted that.

Q Way to go, Sam.

MR. SPEAKES: Right again.

What did the Speaker differ on? I never caught that.

Q The records show that he never made an August 1st commitment.

MR. SPEAKES: I didn't say that. I said before they leave town.

Q The Speaker seems to believe that he told the President that they'd make every effort to have both bills out and they would, if they needed to, delay a few days, but that he never made an ironclad commitment that it would be done or they'd just stay all through the month of August. And in fact, they're still talking about, after a conference on taxes, after the recess.

MR. SPEAKES: The Speaker said he would stay as much as a week, if necessary, and you can draw your conclusions from that. It seems to me plain as the nose on your face.

Q Well, the Speaker's nose is bigger than mine, which takes some doing, but --

THE PRESS: Thank you.

END

12:25 P.M. EDT

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ON PAGE A1

THE WASHINGTON POST  
15 July 1981

# Hugel Resigns as Of CIA Spy Operations

## Career Officer Selected

By Patrick E. Tyler and Lou Cannon  
Washington Post Staff Writers

Max Hugel, the Central Intelligence Agency's chief of clandestine operations, resigned yesterday within a few hours after he was accused in published allegations of improper or illegal stock trading practices.

He was immediately replaced by John Henry Stein, 49, a career CIA officer.

White House aides said they were prepared to recommend that President Reagan fire Hugel but his resignation preempted them. In an early morning telephone call, CIA Director William J. Casey informed White House chief of staff James A. Baker III, "Max is going to step aside."

This call concluded five days of discussions among Casey, Baker, CIA counsel Stanley Sporkin, White House counsel Fred Fielding and others about how to deal with an anticipated series of damaging allegations against Hugel based on tape recordings provided by two Wall Street stockbrokers who did business with him seven years ago. The charges were disclosed in yesterday's Washington Post.

Reagan was not informed until late Monday of the charges against Hugel, whose job as CIA deputy director for operations is one of the most sensitive in government. Baker told the president that the story was due to be published in The Post on Tuesday morning and said Reagan's response was that he was "saddened" to learn of the accusations.

The next time Reagan heard about the matter, Hugel had already quit. The news was relayed to the president at the regular morning staff meeting by Baker, White House counselor Edwin Meese III and deputy chief of staff Michael K. Deaver.

In his resignation letter to Casey, Hugel called the allegations against him "unfounded, unproven and untrue." The 56-year-old former president of a New York wholesale firm said he was leaving because "under present circumstances, I feel I can no longer effectively serve you or the agency."

Casey, in his letter, replied: "It is with deepest regret that I accept your resignation. I do, however, respect your wishes and fully understand your position. I greatly appreciate your efforts for this agency. You have deservedly earned the respect of those with whom you have worked."

Later in the day, White House spokesman David R. Gergen reiterated that the decision had been made at the CIA by Casey and Hugel and several times repeated Hugel's assertion that the charges have not been proven.

In response to a series of questions at the daily White House briefing, Gergen said that the president continued to have "great faith" in Casey's judgment and believed that he had done "a first rate job" at the CIA. At the time Hugel was appointed to his sensitive post more than two months ago, Casey's judgment in making the choice was widely questioned.

Veterans of the intelligence community, as well as some high White House aides, said they were surprised that Casey had chosen a politically oriented and inexperienced outsider rather than a career man.

Following initial questions about Hugel's qualifications, Casey defended him in a long, personal letter to Reagan. Casey's main argument was that he needed someone in the sensitive post in whom he could place his absolute trust and that Hugel, Casey's friend of 20 years, filled that prescription better than any other candidate.

There was no immediate sign that Casey's own position within the administration had been shaken. The president has trusted Casey, aides emphasized, ever since the 68-year-old former chairman of the Securities Exchange Commission helped straighten out the tangled finances of the Reagan campaign last year.

Casey was an unpopular figure with other campaign aides, and since his appointment as CIA director he has been accused of politicizing the agency. There is no evidence that this opinion is shared by Reagan, however.

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THE WASHINGTON POST  
15 July 1981

## *The Hugel File*

THE MAX HUGEL file, it turned out, was a little thicker than the CIA realized when it signed up the erstwhile New Hampshire businessman and Reagan campaign aide as deputy director of operations in May. The check that the agency ran on Mr. Hugel failed to pick up the tangled skein of certain of his business affairs that this newspaper brought to light yesterday morning. In the story, two former associates, tapes in hand, accused the nation's chief spymaster of engaging in improper or illegal "insider" stock market practices. Mr. Hugel denied all charges and, within hours, resigned.

The episode is a pie in the face of the CIA and its director, William J. Casey, who had rocked the agency's old-boy network, and raised eyebrows elsewhere, by choosing as his aide for covert operations and clandestine intelligence-gathering someone with no previous experience in those fields. The CIA is not the first organization to hire a bit hastily. Still, it has better reason and resources than most to proceed carefully.

It is not hard to imagine scenarios—several novelists are probably at it already—with far graver endings than the resignation of an official whose difficulties lay entirely in his business past. That these difficulties were of a sort unquestionably familiar to Mr. Casey, a former chairman of the Securities and Exchange Commission, sharpens the question of how Mr. Hugel passed through the CIA screen.

In some quarters, Mr. Hugel's departure is being taken, and even celebrated, as vindication of the folly of bringing in an outsider to run the country's agents and spies. But, the tinge of social snobbism aside, this is a narrow view. His trouble came not in intelligence, in which he was an outsider, but in business, in which he was an insider. It has to be put down as a moot question whether the street-smart, free-wheeling Mr. Hugel would have done better or worse as a spymaster than those intelligence insiders whose shortcomings had made it seem sensible enough to install an outsider in the first place.



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CHICAGO TRIBUNE

ON PAGE 8 (SECTION I)

15 July 1981

## The wrong man for the CIA

Max Hugel, who resigned Tuesday as the United States' top spymaster after the Washington Post disclosed allegations of shady business dealings, should never have been appointed in the first place. And the reason has nothing to do with whether or not he engaged in improper securities practices when he ran a New York wholesale company. He simply had none of the qualities this country needs in the sensitive position of the CIA's deputy director for operations.

Like his boss, CIA Director William Casey, Mr. Hugel was active in President Reagan's political campaign. Like Mr. Casey, he has a reputation for interperance. And like Mr. Casey, his background in the dark and specialized world of international intelligence was scanty, indeed.

Temperance and professional skill are essential in the top jobs in the CIA. Close political ties to the President count on the liability side.

No agency in government, not even the Justice Department and its FBI, is as sensitive as the CIA. Few agencies are as essential. The collection and analysis of foreign intelligence shapes U.S. foreign policy and can be the measure of difference between success in the world and defeat. But espionage must be done in the dark. The usual check on government behavior — informed public opinion — gives way to the requirement of secrecy. Whatever else was accomplished when Congress pried open the CIA to public scrutiny after

Watergate, the agency's ability to function was harmed.

Because Presidents are so dependent on the CIA and so unsure what really goes on in its headquarters at Langley, Va., and in the field, they are tempted to fill the top jobs with people of known political loyalty. But because the public cannot know what this agency of their government is doing in their name, and because the CIA operates to a greater extent than any other government organization without the usual restraints of popular self-government, it is essential that the people at the top be seen not as the President's political operatives but rather as apolitical professionals. They must generally follow the President's orders but, as history has shown, they should sometimes resist them, too, when the orders are improper or illegal.

If this sounds like a brief not only against Mr. Hugel but also against Mr. Casey, who has also had his securities law problems (as reported by Tribune columnist Dan Dorfman), that is because Mr. Casey troubles us, too. We warned against the appointment of political cronies to top CIA jobs before President Reagan made any appointments. We were disappointed when he did not heed that advice. Whether or not Mr. Hugel or Mr. Casey committed any improprieties in their private business dealings, they are the wrong men to run U.S. espionage.

CHICAGO TRIBUNE  
15 July 1981

## Spy chief's appointment prompted wide criticism

BEGINNING WITH his appointment in May as one of the nation's top spymasters, Max Hugel's association with the Central Intelligence Agency was marked by controversy.

Intelligence veterans quickly pounced on Hugel, 56, who had been with the CIA only a few months, as unqualified to be deputy director for operations of the CIA. The job is considered by many as the agency's most sensitive, carrying responsibility for clandestine intelligence gathering and covert operations.

Many observers charged that only the New Hampshire businessman's friendship with CIA Director William J. Casey could explain his rise to such a vital post. Casey, President Reagan's national campaign director in 1980, recruited Hugel for the election drive. A biography from the CIA said Hugel was in charge of organizing "ethnic, nationalities, occupational, religious, and other voting groups."

ONE EXPERT said Hugel's CIA appointment was "like putting a guy who

has never been to sea in as chief of naval operations. . . . It's like putting a guy who is not an M.D. in charge of the cardiovascular unit of a major hospital," said George A. Carver, a CIA veteran who served on Reagan's transition team for the agency.

But Casey strongly defended Hugel's appointment. "I looked over the field very carefully, and I believe I made a good choice," he said. Hugel's inexperience, Casey said, was compensated for by his assistants. "His ability to apply private vigor to an organization . . . has made a very strong impression around here."

Another big booster of Hugel was William Loeb, the ultraconservative publisher of the Manchester (N.H.) Union Leader. "That fellow is a superb organizer," Loeb said. Hugel is just over 5 feet tall, and Loeb admiringly called him "a tough little street fighter."

OTHERS WERE less impressed. A member of Reagan's CIA transition team reportedly described Hugel as "a living disaster."

# RADIO TV REPORTS, INC.

4701 WILLARD AVENUE, CHEVY CHASE, MARYLAND 20015 656-4068

FOR PUBLIC AFFAIRS STAFF

PROGRAM ABC World News Tonight STATION WJLA-TV  
ABC Network

DATE July 15, 1981 7:00 PM CITY Washington, DC

SUBJECT Charges Against William Casey

FRANK REYNOLDS: Now the story of CIA Director William Casey. Yesterday a double blow. There was the disclosure of charges he had knowingly misled investors in one of his business ventures in 1968 and the resignation of Max Hugel, who had been in charge of CIA secret agent activities, because he too was accused of improper or illegal business practices unrelated to those involving Casey.

Today, support for Casey at the White House, questions for him in Congress.

We have two reports. First, senior correspondent John Scali.

JOHN SCALI: CIA Director William Casey moved swiftly today to strengthen congressional confidence in his leadership. Unannounced, he showed up at the Senate.

DIRECTOR WILLIAM CASEY: Just to visit some of my friends in here.

SCALI: Those friends, ABC News has learned, were mainly Senator Barry Goldwater, who was incensed that Casey never informed him in advance of the potential crisis over Hugel's financial problems. Casey met privately with Goldwater, who is Chairman of the Senate Intelligence Oversight Committee, and apparently succeeded in calming Goldwater by telling him he tried unsuccessfully several times to reach him before the disclosure.

Hoping to head off new difficulties, Admiral Bobby Inman, ~~Approved For Release 2005/11/28 : CIA-RDP91-00901R000400180009-9~~ right to soothe an angry Democratic Senator Moynihan, who had publicly

24  

# RADIO TV REPORTS, I

4701 WILLARD AVENUE, CHEVY CHASE, MARYLAND 20015 656-406

FOR PUBLIC AFFAIRS STAFF

PROGRAM NBC Nightly News STATION WRC-TV  
NBC Network

DATE July 15, 1981 7:00 PM CITY Washington, DC

SUBJECT Allegations Against Head of CIA

JOHN CHANCELLOR: In Washington, everyone is still talking about the resignation yesterday of the Central Intelligence Agency's Director of Clandestine Operations, who quit before he was fired after an expose in the Washington Post. And there was talk about some allegations against the head of the CIA, as well.

Here's Roger Mudd.

ROGER MUDD: President Reagan late this afternoon let the country know he retains full confidence in CIA Director William Casey and wants him to continue, even though a federal judge says Casey knowingly misled some investors in a business deal 20 years ago.

In one of those shouted curbside encounters with the press, Mr. Reagan would acknowledge there was even a Casey controversy.

PRESIDENT RONALD REAGAN: There's no controversy. I have complete trust in him.

MUDD: The other question that had Washington babbling today was why Casey didn't know what the Washington Post knew about the CIA's chief spy.

Bob Kur reports.

BOB KUR: At the White House, the Capitol, and the CIA itself, today's big question was how could it happen, how could the CIA's Max Hugel's stock trading practices, especially after the CIA interviewed 28

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LONDON TIMES  
15 July 1981

## Watergate-style report

# Top CIA man quits after stock market allegations

From Nicholas Hirst, Washington, July 14

The Central Intelligence Agency's chief of secret operations has resigned because of allegations of improper stock market practices during his business career.

In a statement the CIA said that Mr Max Hugel, the deputy director of operations, had resigned but emphatically denied the allegations as unfounded and untrue. Mr John Stein, a veteran career intelligence officer, has been appointed as his successor.

The Watergate-style story of Mr Hugel's alleged improper business dealings emerged today in a *Washington Post* exclusive written partly by Mr Bob Woodward, one of the two reporters who helped uncover the original Watergate scandal.

It is dependent largely on secretly recorded conversations between Mr Hugel and Thomas and Samuel McNell, whose broking firm, McNell Securities, made a market in the shares of Brother International, which was run by Mr Hugel.

The tapes, as produced by *The Washington Post*, have many swear words deleted.

The allegations against Mr Hugel are essentially that he provided the McNells with insider information on his company. In other words, he told them confidential trading news which might enable them or their clients to profit from trading while other stockholders were kept in ignorance.

Mr Hugel is also accused of arranging to "massage" the stock of his company by organized buying.

Mr Hugel has comprehensively denied that he has done anything wrong.

Through his lawyer he issued a statement saying: "The fact of the matter—and this is incontrovertible—is that I have never made a penny of unlawful profit or done anything else to bring discredit upon my company, my family, myself, or the United States. I deny any wrongdoing, and I can demonstrate that none was intended or committed."

The real point is likely not to be whether the precise allegations are true, but how a man could be chosen for such a sensitive position as the Central Intelligence Agency's deputy director for operations when such allegations might be made against him.

Through all the accusations and counter accusations—Mr Hugel has accused the McNells of threatening to blackmail him when he tried to sever business connexions with them—the clear message is that the appointment of Mr Hugel was a controversial decision which now looks to have badly misfired.

The fuss must put in doubt the future of the man who chose him, Mr William Casey, the CIA director. Mr Casey has begun an internal investigation into the allegations of Mr Hugel's business dealings during the mid-seventies, but the question he will have to answer, is why, in the face of considerable opposition, he chose Mr Hugel in the first place.

15 July 1981

# Spy chief quits amid allegations of improprieties

## CIA director named in different case

From Wire Services

New York—William J. Casey, the director of central intelligence, knowingly participated with several others in an investment offering for a farming company in 1968 that "omitted and misrepresented facts" to investors, according to a Federal District Court decision handed down in May.

The ruling on May 19 by Judge Charles E. Stewart, Jr., of the Federal District Court in Manhattan named Mr. Casey as one of the officers and promoters of Multiponics, Inc., who were responsible for the misleading offering. Mr. Casey was then a private lawyer and was listed as the secretary and a director of the company. The company went into bankruptcy proceedings in 1971 and is now defunct.

Judge Stewart's decision, which was based on documents and admissions by the defendants, including Mr. Casey, was part of a drawn-out lawsuit in which disgruntled investors are seeking to recoup their losses. Many other issues in the case, including damages, remain to be litigated, and Mr. Casey's lawyers are seeking a reargument of the portion decided by Judge Stewart.

One of Mr. Casey's lawyers, Arnold S. Jacobs, of the firm of Shea & Gould, said yesterday his client was "taking the position that he did not violate the federal security law."

"Mr. Casey was a passive investor" who was not directly involved in the management of the company, Mr. Jacobs said. "He lost a lot of money in the company, virtually all of his investment." Mr. Jacobs and Milton Gould, the firm's senior partner, are representing Mr. Casey.

A spokesman for the CIA said Mr. Casey had no comment on the case.

Mr. Casey's involvement with Multiponics and the subsequent lawsuit came up in 1973 in Senate confirmation hearings on his appointment as undersecretary of state for economic affairs. Mr. Casey, then chairman of the Securities and Exchange Commission, denied wrongdoing and said, "It's a question of a business decision." Senator Jacob K. Javits said later that he was satisfied Mr. Casey had done nothing wrong.

In a 19-page opinion, Judge Stewart said Multiponics, which was first named Ivanhoe Associates, was organized by Mr. Casey and six other defendants in January, 1968, to engage in farming operations and acquire land.

"Its original farm properties were acquired from the founders, with accompanying indebtedness, in return for capital stock in the company," said Judge Stewart. The promoter defendants served as officers and directors at the time of the events at issue.

The judge noted that an offering circular was issued for the sale of 35,000 units of Multiponics securities, and two later registration statements were filed with the Securities and Exchange Commission.

Judge Stewart said part of the offering circular distributed in October, 1968, stated that the company's properties at the time included seven operating farm units and two tracts of uncleared land.

"In contrast, the registration statements filed by Multiponics on September 8, 1969, and July 29, 1970, state that of the seven so-called operating farming units, two were not operating at all at the time they were acquired by the company, two were not operating other than sharecropping, and one was operating at a loss," the judge said.

The offering circular also stated that \$1,354,000 of the proceeds from the sale of debenture units would be used to retire short-term debt, Judge Stewart said.

The judge said the registration statements showed that the company used \$917,000 or about 68 percent of the proceeds, to repay officers and directors of Multiponics for loans they made to the firm.

"The offering circular did not mention that such a significant portion of the short-term debt was to be paid to the officers and directors of the company," the judge said.

"Defendants do not dispute these facts or that they were not contained in the offering circular," Judge Stewart said. "They state, however, that there was never any deliberate concealment and that issues of fact remain concerning whether these omissions were material."

The judge disagreed, however. "In sum," he said, "there is no genuine issue of material fact that the offering statement omitted and misrepresented facts that would have been material to a reasonable investor in determining whether to purchase Multiponics stock."

The judge said the minutes of a board of directors meeting held February 2, 1968, show that Mr. Casey and the other defendants were present when a draft of the offering was distributed and discussed. He added that the defendants "do not dispute that they knew the material facts misstated or omitted."

"Indeed, these defendants were personally involved in the underlying transactions," said Judge Stewart. "Thus, there is no genuine issue of fact as to these defendants' knowledge of the material misstatements or omissions."

Judge Stewart still has to determine whether the investors who are plaintiffs in the suit relied on the offering circular to buy Multiponics securities and are entitled to damages.

Multiponics, incorporated in Delaware in 1968, consisted of 43,000 acres of soybean, rice, cotton and corn land in Louisiana, Mississippi, Arkansas and Florida. Among the other founders were Stanley E. Burkley, of Natchez, Miss.; N. Leslie Carpenter, a Natchez investment banker; Alfred J. Moran, a New Orleans industrialist; Lawrence F. Orbe III, a New Orleans investment banker; and James H. Swinny, a Natchez businessman. All are defendants in the lawsuit.

The plaintiffs in the case, who are the investors in the original private offering, include individuals and trusts. The largest investor, representing \$1.5 million, was IIT, an international investment trust controlled by Investors Overseas Services. IOS was later acquired by Robert L. Vesco, who was accused in 1972 of swindling \$224 million from IOS investors.

After the Securities and Exchange Commission brought suit against IOS, its assets, including the holdings in the Luxembourg-based IIT, were liquidated. When American lawyers handling the IIT liquidation learned of the suit by other Multiponics investors, they joined it, in 1974.

## CIA Head Casey Knew That Securities Leaflet Misled, Judge Rules

By a WALL STREET JOURNAL Staff Reporter

NEW YORK—CIA Director William J. Casey knew of misrepresentations and omissions in a securities offering circular put out by a company of which he was a director, a federal judge ruled.

Mr. Casey and other officers and directors of Multiponics Inc. were sued in 1974 by purchasers of the \$3.5 million of securities in the 1968 private offering. The litigation is still pending and the case hasn't gone to trial; the judge's ruling was contained in a

"memorandum decision" on a request for summary judgment.

Media coverage of Mr. Casey's role in the case dates back to the early 1970s, though federal Judge Charles E. Stewart's May ruling wasn't uncovered until yesterday.

The ruling was disputed by Arnold Jacobs, an attorney for Mr. Casey. "Mr. Casey was just a passive investor in this enterprise, and he relied on experts to put this circular together," Mr. Jacobs said yesterday. "We are asking Judge Stewart to reconsider his decision," Mr. Casey, who was chairman of the Securities and Exchange Commission during the Nixon administration, didn't have any comment, a CIA official said.

Mr. Casey was named in other actions related to Multiponics in the early 1970s. He settled the cases out of court without admitting wrongdoing.

An SEC registration statement said Mr. Casey invested \$146,614 in Multiponics, which was incorporated in 1968 to engage in farming operations. It entered bankruptcy proceedings in 1971. The company assumed his mortgage debt of \$301,000.

The disputed circular for the private offering said that the company's properties included seven operating farm units, but the later SEC registration statements said two of those units weren't operating, another two

were only involved in sharecropping and one was operating at a loss, Judge Stewart said.

The circular also failed to disclose that the company assumed mortgage indebtedness of about \$2.7 million when it swapped shares for the founders' properties, Judge Stewart said, adding, "... a potential investor is likely to be particularly interested in the indebtedness of the company under consideration" because it affects a company's ability to obtain financing.

Also omitted in the circular, Judge Stewart said, was the fact that part of the proceeds of the private offering would be used to repay officers and directors for loans made by them to Multiponics. The circular stated only that a portion of the proceeds would be used to retire short-term debt, the judge said.

The judge said the defendants didn't dispute that the misrepresentations and omissions were contained in the circular, but that the defendants contended "there was never any deliberate concealment..."

15 July 1981

# CIA director misled investors: court

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A FEDERAL JUDGE has ruled that William J. Casey, director of the Central Intelligence Agency, knowingly misled investors in a \$3.5 million fund-raising effort for a now-defunct New Orleans company, Multiponics, Inc., while serving as a board member and secretary of that corporation.

Judge Charles Stewart of the Southern District of New York concluded that Casey was one of eight Multiponics officers and directors who permitted distribution of an offering circular in conjunction with the fund-raising effort when they knew the memorandum contained both false and misleading information and omitted material facts that were detrimental to the company's prospects.

The plaintiffs in the civil suit, according to the court papers, consist of IIT, an international investment trust; and George Marshall Houx and others suing individually and on behalf of a class of all purchasers.

The judge's findings, which were set forth in a "memorandum decision" last May 19 and have thus far escaped public disclosure, represent an outgrowth of a suit filed by unhappy Multiponics investors in October, 1974.

MULTIPONICS WAS organized in January, 1968, to engage in farming operations, the agricultural business, and the acquisition of land in connection with these activities. The company subsequently went bankrupt in February, 1971, after it was unable to raise sufficient financing to continue in operation. A public offering had been contemplated, but never came to pass.

Casey, chairman of the Securities & Exchange Commission and head of the Export-Import Bank during the Nixon and Ford administrations, refused to comment on Judge Stewart's findings.

Casey's attorney, Arnold Jacobs, a partner of the firm of Shea & Gould, said it would be inappropriate for the CIA director to comment since a motion for reargument has been filed.

"We're asking him" (Stewart) to reconsider and we're hopeful he'll reverse his



CIA Director William Casey. Judge says Casey knew information detrimental to firm was contained in memo.

position," said Jacobs, who is handling Casey's defense in conjunction with Milton Gould, the law firm's senior partner.

Jacobs commented that the offering circular in question — distributed to investors in October, 1968 — was largely prepared by the now-defunct investment banking firm of Glore Forgan. And Casey, Jacobs said, relied primarily on that draft.

MULTIPONICS, originally known as, Ivanhoe Associates, was formed by acquiring a series of farm properties from the company's founders in exchange for capital stock.

Casey personally invested \$145,614 in the company, and Multiponics, in acquiring his properties, took over his mortgage debt of \$301,000.

Multiponics also assumed the mortgage debts of all other founders — an amount that exceeded \$2.7 million.

At no point in the offering circular were investors informed of the company's assumption of the multimillion-dollar debt of its founders.

Stewart, commenting critically on this matter, observed that since Multiponics stated in its offering circular that the company was dependent on long-term financing for its growth and success, a potential investor was likely to be particularly interested in the indebtedness of the company under consideration.

IN A SIMILAR vein, the judge was also critical of the offering circular over what he regarded as another significant omission — namely, the sizable amount of the proceeds from the proposed fund-raising effort that would be used to repay loans made to Multiponics by its officers and directors.

In a later prospectus, it was revealed that of some \$1.35 million that would be used to retire short-term debt, \$917,000, or 68 per cent, would be turned over to company officials for loan repayments.

Whether Casey, who is said by Jacobs to have lost most, if not all, of his investment, made any such loans — or received any repayment — could not be immediately determined.

One of the judge's most telling findings — in which he concluded misstatement of facts — centers on a couple of disclosures in the offering circular about the company's farm properties. They are as follows:

- The company's present properties include seven operating farm units and two tracts of as-yet uncleared land.

- Ivanhoe Associates was formed through the merger of seven operating farm units and operated until recently by an experienced group of agricultural, managerial, and financial entrepreneurs.

However, subsequent prospectuses filed by Multiponics in September, 1969, and July, 1970, raise serious questions about the validity of these statements.

IN THOSE prospectuses, it's stated that of the seven so-called operating farm units, two were not operating at all at the time they were acquired. Another two were not operating other than sharecropping (the leasing of the land to farmers who operate the land and keep a chunk of the profits). And one was operating at a loss.

The defendants (including Casey), observes the judge, contend that the misstatements or omissions in the offering circular concerning the prior use of the farms "really had no significance in assessing the likelihood that Multiponics would succeed." Their reasoning: "The properties which Multiponics acquired were selected on the basis of their potential for large-scale agri-business farming."

Rejecting this defense, Stewart asserted that the extent to which farms were operating at the time the company was formed would be significant in assessing present earnings capacity and capacity to raise capital necessary for future expansion.



He added that the statements concerning the scope of the farming operations assume even greater significance when considered in the light of the undisputed facts that the company assumed substantial debt when it acquired the property.

THE JUDGE'S findings note that the directors of Multiponics were present at a board meeting on Feb. 2, 1968, at which copies of a draft of the offering were distributed and fully discussed.

In his summation, Stewart observed that the defendants do not dispute that they knew material facts were misstated or omitted. Indeed, these defendants, he said, were personally involved in the underlying transactions.

Thus, he added, "there is no genuine issue of fact as to these defendants' knowledge of the material misstatements or omissions."

Presumably, the plaintiffs, at some point, will seek damages. Their attorneys, Anderson, Russell, Kill & Olick,

and Laszlo Kormendi, declined comment.

Aside from Casey, there are seven other defendants — all of whom served as directors of Multiponics at some point. They are Carl Biehl, Stanley Burkley, N. Leslie Carpenter, Alfred J. Moran, Lawrence Orbe, James Swinny, and Joseph Zuccaro.

## Controversy dogs Casey's footsteps

**WILLIAM J. CASEY** has spent much of his career shuttling between jobs on Wall Street and service in Washington. Along the way, he has drawn fire for the way he has straddled the two worlds.

When President Richard Nixon nominated Casey in February, 1971, to chair the Securities & Exchange Commission (SEC), his confirmation appeared to be a shoo-in. The nomination of the successful businessman, lawyer, and political operator was quickly approved by the Senate Banking Committee.

But the hearings were reopened in early March, 1971, after disclosures in the press about three lawsuits in the 1960s in which Casey was a defendant.

Two of the suits had accused Casey of securities violations while he was an officer of Advancement Devices, Inc., and Kalvar Corp. The third concerned a plagiarism charge involving Casey's membership on the editorial board of the Institute for Business Planning.

THE PLAGIARISM suit appeared to be most damaging. Casey's account of the suit before the committee was disputed on several counts by the trial judge. Casey also changed his testimony at the hearing and admitted that the records in the case had been sealed at his request — not, as he originally claimed, at the request of the judge.

Casey's supporters argued that the lawsuits were part of the usual legal battles that active businessmen might be expected to face, and said they were impressed by Casey's "energy and toughness."

Over the objections of Sen. William Proxmire (D., Wis.), who complained that he did not believe Casey to be sufficiently "beyond reproach," the nomination was again approved by the Banking Committee and the full Senate.

Casey's two years as chairman of the SEC, during which he was expected to proached regulation of the securities

industry vigorously, restructuring stock markets to increase competition and strengthening financial disclosure laws.

BUT CASEY CAME under fire in October, 1972, when he turned the commission's entire file on International Telephone & Telegraph Corp. — 34 cartons of material — over to the Justice Department.

ITT had been accused earlier that year of trying to trade financial support of the Republican National Convention for settlement of antitrust disputes with the Justice Department.

Congressmen who had been seeking the records for their own investigations charged that Casey was trying to put the documents out of reach until after the 1972 election. Casey retorted that the Justice Department had asked for them.

But a top Justice official later denied that claim, saying that Casey and White House counsel John Dean had pushed the files on the department. Casey later said the files could have been "politically useful" to opponents of the Nixon administration.

BY THE TIME the furor over the ITT case died down, Casey was undersecretary of state for economic affairs. His confirmation hearings for that post in 1973 were marred by the disclosure that he and other former officials of Multiponics, Inc., had been named in a federal suit alleging gross mismanagement and flagrant violation of duties in running the corporation. The \$2.1 million suit, filed after Casey's nomination to the State Department post, was brought by the court-appointed trustee of the then-bankrupt firm. But Casey weathered that storm and was confirmed by the Senate to his new post.

The nomination of Casey to head the Central Intelligence Agency, by contrast, was not challenged. Casey, director of President Reagan's election campaign, was confirmed quickly and quietly by the Senate.